COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 25, 2002

APPLICATION OF

VIRGINIA GAS STORAGE COMPANY

CASE NO. PUE010308

For an Annual Informational Filing

ORDER ADOPTING RECOMMENDATIONS
AND DISMISSING PROCEEDING

On May 25, 2001, Virginia Gas Storage Company ("VGSC" or "the Company") delivered its Annual Informational Filing ("AIF") that included financial and operating data for twelve months ended December 31, 2000, to the State Corporation Commission ("Commission"). On June 8, 2001, counsel for the Commission Staff advised VGSC that several schedules required by 20 VAC 5-200-30, Rules Governing Utility Rate Increase Applications and Annual Informational Filings ("Rules") were necessary to complete the Company's AIF.

On June 13, 2001, VGSC, by counsel, filed a letter with the Commission wherein, among other things, the Company requested a waiver of the Rules that required Schedules 9 through 14, 21, and Schedule 25 be filed as part of VGSC's AIF.

On June 22, 2001, the Commission entered an Order that docketed the application, granted the Company's request for a waiver, and directed VGSC to file, in accordance with the

Company's representations, the remaining information identified in Staff's June 8, 2001, letter as necessary to complete the Company's application.

On December 18, 2001, the Commission Staff filed its report ("Report") on the captioned application, which included a financial and accounting analysis. Staff noted in its Report that it used an 11.5% return on equity to evaluate VGSC's financial condition for illustrative purposes only. It explained that VGSC's application for a certificate of public convenience and necessity for the Company's storage facilities in Case No. PUE940078 was based on estimates of revenues and costs that included a cost of capital incorporating a rate of return on equity of 11.5%. As in prior AIFs, Staff used Virginia Gas Company's ("VGC") consolidated capital structure in the case because VGC was the primary entity that raised capital on behalf of VGSC and its other affiliates through the test year. This consolidated capital structure, together with an 11.50% cost of equity, produced an overall weighted cost of capital of 10.627% for the twelve months ending 2000.

Staff further noted that NUI Corp. ("NUI"), a natural gas exempt holding company, consummated the acquisition of VGC and VGC's ownership and control of VGSC and its affiliates on March 28, 2001, in accordance with the Commission's March 27, 2001, Final Order entered in Case No. PUA000079. Staff commented that it did not consider NUI's consolidated capital structure for purposes of Staff's Report because NUI's acquisition of VGC and VGSC was not executed during the test year. Staff indicated that it intended to reevaluate the appropriate ratemaking capital structure for VGSC in the Company's next AIF.

After conducting its accounting analysis, the Staff noted that VGSC had sold some of its base gas from its storage inventory to United Cities Gas Company and certain non-jurisdictional customers. Staff observed that there was no provision for the sale of base gas from storage in VGSC's tariffs and that the service did not appear to be contemplated by VGSC's certificate of public convenience and necessity. Staff reported that in addition to sales of base gas from storage, VGSC had a contractual arrangement with the Knoxville Utilities Board to provide winter gas sales service. Staff noted that these gas sales were not from storage and have never affected Virginia jurisdictional earnings since the sales have always been considered non-jurisdictional. Staff stated that the contract with the Knoxville Utilities Board had expired in the summer of 2001 and had not been renewed. Staff recommended that the Commission direct VGSC not to engage in such transactions again or, alternatively, seek the revision of its tariffs and certificate if the Company wishes to engage prospectively in these types of transactions.

Staff further excluded the sales of the base gas from VGSC's current earnings but recommended that the profit generated from the base gas sales be recognized as a reduction in the embedded cost of the base gas in storage.

Finally, the Staff noted that the Commission's Rules specify that AIFs be filed within 120 days after the end of the Company's test period. It recommended that if VGSC desires to seek a waiver from filing its AIF on or before the end of the 120 day period, it should request such a waiver before the end of that period.

On January 10, 2002, VGSC, by counsel, advised that it would not be filing any comments on the Staff's report filed in this matter.

NOW, THE COMMISSION, upon consideration of the Company's application, the Staff's report, and the applicable statutes, is of the opinion and finds that the Staff's recommendations, as modified below, are reasonable and should be adopted and that this matter should be dismissed from the Commission's docket of active proceedings.

We agree that the Staff's accounting recommendations regarding the Company's sale of its base gas are appropriate. In this regard, we will enjoin the Company from selling its base gas until such time as the Company files an appropriate tariff that is approved by the Commission. However, we will not require VGSC to seek an amendment of its certificate of public convenience and necessity. The sale of base gas used in the storage facility appears to be sufficiently related to VGSC's storage operations so as not to require the amendment of the Company's certificate of public convenience and necessity. However, if VGSC wishes to purchase and sell natural gas that it has not stored on behalf of any customer, as it did for the Knoxville Utilities Board, it should seek appropriate authority to do so. As such, we advise VGSC that if it engages in transactions for which it has not received regulatory approval, we will not hesitate to investigate the matter and take whatever actions are necessary to ensure compliance with the Commonwealth's statutes and our regulations.

Accordingly, IT IS ORDERED THAT:

(1) Consistent with the findings made herein, the recommendations set out in the Staff's December 18, 2001, report, as modified herein, are hereby adopted and shall be implemented by the Company.

(2) The Company is hereby enjoined from making natural gas sales from its base gas inventory to customers until such time as it files an appropriate tariff with the Commission and that tariff is approved.

(3) The Company is enjoined from buying and selling natural gas on behalf of customers that it has not stored for said customers without proper regulatory authority to engage in such transactions.

(4) There being nothing further to be done herein, this matter shall be dismissed from the Commission's docket of active proceedings and the papers filed herein placed in the Commission's file for ended causes.